Service Date: March 27, 2002

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of Montana-Dakota Utilities Co. Regarding its biennial report for its Integrated Resource Plan (IRP).	))))	UTILITY DIVISION DOCKET NO. D2001.9.128 ORDER 6412

Commission Response
to MDU's Least Cost Plan

Background

1. Montana-Dakota Utilities (MDU or Company) filed its 2001 electric integrated least cost resource plan (IRP or plan) on September 14, 2001, pursuant to Section 69-3-1204, MCA and ARM 38.5.2001-2012. On September 25, 2001 the Public Service Commission (PSC) issued a Notice of Filing of Least Cost Plan, Notice of Comment Deadline and Notice of Opportunity for Public Hearing. On March 5, 2002 the Public Service Commission extended the Comment deadline to March 15, 2002. Also on March 5, 2002, the Department of Environmental Quality (DEQ) filed comments on MDU's IRP.

2. The goal of the PSC's integrated resource planning guidelines (ARM 38.5.2001-2012) is to encourage electric utilities to meet customer needs for adequate, reliable and efficient energy services a the lowest total societal cost, while remaining financially sound. The PSC's guidelines provide utilities policy and planning guidance; they do not require specific outcomes or mandate investments.

3. MDU's planning process involves several steps. First the Company develops a forecast of future loads and conducts separate analyses of the available demand-side and supply-side resources that could be used to service the loads. Then the best demand-side and supply-side resources are integrated in order to develop a resource plan and a near term action plan that satisfies specific planning criteria. MDU develops plans from two different perspectives: the average rates perspective (also known as the rate impact perspective) and the societal

perspective. Plans developed from the rate impact perspective are designed to minimize the levelized average system rate while plans developed from the societal perspective are designed to minimize the present value of societal costs. Consistent with the Company's policy and previous resource plans, MDU based its near term resource acquisition plans on a resource plan derived using the rate impact perspective. MDU asserted that the plans that result from the two alternative planning perspectives are very similar.

Summary of Comments

DEQ notes that MDU has not acted on previous DEQ comments for two reasons. First, MDU has conflicting regulatory environments between Montana and North Dakota but favors the North Dakota rules on IRP. Second, MDU's rate of sales growth in its territory has been low.

DEQ comments that the forecasts MDU makes are plausible and carry little risk of over or under estimating in the short term. On-going drought and the state of the national economy make it unlikely that growth rates will be higher than expected. DEQ also recognizes that acquisition schedules could be easily delayed if growth does not materialize. The next resource addition is a combustion turbine being installed in 2005. Any short term change can be accounted for in the subsequent planning cycles.

DEQ expresses concern over MDU's analysis of energy efficient programs. DEQ does not believe that MDU considered the full range of technology available for efficient energy policy. DEQ provides the following examples:

a) The cost of energy efficiency for new houses has dropped for another utility, MPC. MDU's plan should use the more recent figures for this program.

b) MDU did not consider converting exit signs from incandescent to LED fixtures. DEQ believes that such a conversion may have also been cost effective.

c) The consumption figures for washers appear higher than the Department of Energy's tests. DEQ also expressed concern over water use reduction for washers as well. DEQ stated that its confidence in the washer analysis was undermined.

d) DEQ expressed concern that MDU uses retrofit costs rather than replacement costs in its energy efficiency analysis. DEQ believes it would be cheaper to purchase energy efficient products when the appliance is being replaced. Most appliances will be replaced over the next twenty years anyway so the cost of replacement would only be an incremental cost to upgrade the appliances.

e) DEQ expressed concern over the number of participants in several programs. In particular, DEQ believes that more than 30 customers would participate in the high efficiency window air-conditioning program.

DEQ believes that these flaws suggest that MDU should consult with other utilities or a group like the Northwest Power Planning Council when developing its demand side energy efficiency plans. Although many of the resources MDU plans to acquire have low environmental impacts, a more accurate demand side analysis could further reduce the environmental impact.

DEQ expresses concern that preferred resource plan (rate payer impact perspective) has societal cost $16,871,000 greater than the alternative lowest societal cost plan (societal perspective). This cost to society prevents society from putting that money towards other uses.

DEQ also wants MDU to clarify why a 500 MW lignite-fired baseload that MDU is investigating in North Dakota is not included in the Montana IRP. DEQ believes MDU should include the cost of investigating the feasibility of this resource if the cost is not being borne by the investors.

Commission Response

4. MDU's internal resource planning and philosophy differs from the Commission's philosophy expressed in the Least Cost Planning rule, ARM 38.5.2001-2012. MDU's resource planning and acquisition goal is to deliver reliable electricity service at the lowest average system rate (rate payer impact perspective). The Commission embraces a resource planning and acquisition goal to provide customers reliable and efficient energy services at the lowest long-term societal costs (societal perspective). However, the Commission's rules on resource planning are provided to utilities as guidance. The rules, likewise, are not intended to "specify

the outcome of the planning process nor mandate particular investment decisions" ARM 38.5.2001(4).

5. The Commission believes that MDU's 2001 plan does not sufficiently address the impacts of Montana's restructuring and customer choice laws, or possible federal legislation. The Commission's Least Cost Planning rules are intended to "reduce and manage the risk of resource choices to shareholders, ratepayers and society" ARM 38.5.2001(6). The Commission specifically identified the future sociopolitical and regulatory environment as a source of risk that utilities should evaluate in conducting a resource planning process consistent with the Commission's guidelines (ARM 38.5.2004(j)). MDU only mentions that its investigation into the effects of restructuring and legislation is "still an ongoing project" (MDU 2001 IRP, 6-3 and 6-5). Due to recent Montana legislation, however, customer choice has been delayed for MDU customers until North Dakota implements a restructuring law.

6. The Commission identified the following deficiencies in MDU's 2001 integrated resource planning process. (1) ARM 38.5.2004 addresses the evaluation of risk and uncertainty. MDU did not adequately evaluate the risk and uncertainty related to electric industry restructuring and recent legislation. MDU should address how delaying customer choice affects their plan and whether the North Dakota legislature contemplates restructuring as this affects MDU's operations in Montana. (2) ARM 38.5.2007 requires that a plan be consistent with the Commission's planning guidelines seeking to minimize long-term societal costs and risks. MDU's action plan, based on a plan selected using the rate impact test, is inconsistent with this guideline. The Commission also questions the accuracy of MDU's demand side analysis relating to energy efficiency. MDU should more fully investigate and update its demand side resource analysis to better reflect current trends and technology.

CONCLUSION"S OF LAW

1. Montana-Dakota Utilities Company is a public utility subject to the jurisdiction of the Montana Public Service Commission pursuant to title 69, Chapter 3, MCA.

2. The Montana Public Service Commission may require public utilities providing

electric service to file plans for meeting the requirements of its customers (integrated least cost resource plans) in the most costs effective manner consistent with the utility's obligation to serve (69-3-1204 (1) MCA).

3. The Montana Public Service Commission may adopt guidelines to be used in preparing integrated least cost resource plans (69-3-1204 (3), MCA).

4. If integrated least cost resource plans do not meet the requirements of the Commission's guidelines, the Commission must return the plan to the utility with a list of deficiencies and a time certain to submit a corrected plan (69-3-1204 (3) MCA).

5. The Montana Public Service Commission has adopted integrated least cost resource planning guidelines for electric utilities (ARM 38.5.2001-2012).

ORDER

1. Montana-Dakota Utilities Company is herby directed to incorporate the suggestions and comments made in this order into its 2003 integrated least cost resource plan.

2. This docket is herby closed.

Done and dated this March 26th, 2002, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

GARY FELAND, Chairman

JAY STOVALL, Vice Chairman

BOB ANDERSON, Commissioner

MATT BRAINARD, Commissioner

BOB ROWE, Commissioner

ATTEST:

Rhonda J. Simmons
Commission Secretary

(SEAL)